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SUBJECT: SOVIET ENERGY PLAN: PETROTEUM MINISTER SHASHIN
OUTLINES FUTURE DEVELOPMENTS

1. INTRODUCTION AND SUMMARY - ACCORDING TO AUGUST 29
SOTIALISTICHESKAYA INDUSTRIYA ARTICLE ("STRATEGY OF
EFFECTIVNESS") BY MINISTER OF PETROTEUM INDUSTRY VALENTIN
SHASHIN, SOVIET OIL PRODUCTION POLICY DURING TENTH FIVE-
YEAR PLAN (1976-80) WILL BE KEYED TO EXPANDED APPLICATION
LATEST TECHNOLOGY AND EQUIPMENT, CONTINUED REDUCTION OF NON-
PRODUCTION MANAGEMENT AND AUXILIARY SERVICES PERSONNEL,
DEVELOPMENT AND APPLICATION OF MORE EFFECTIVE CRITERIA FOR
PERFORMANCE EVALUATION, AND RAPID INCREASE IN PROSPECTING
WORK AND EXPLOITATION OF NEW DEPOSITS. LATTER EFFORT AIMED
AT ANNUAL INTRODUCTION 90 MILLION TONS NEW CAPACITY, LARGELY
IN WESTERN SIBERIA AND KOMI ASSR. SHASHIN STATES THAT
SPECIAL FUND TO BE CREATED IN 1976 WILL COMPENSATE
ENTERPRISES FOR INCREASED COSTS OF DEVELOPING AND APPLYING
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NEW TECHNOLOGY. PLANNED REORGANIZATION OF MANAGEMENT DURING

NEXT YEAR WILL INCLUDE REDUCTION OF PRESENT THREE-TIERED SYSTEM (MINISTRY-PRODUCTION ASSOCIATION-ENTERPRISE) TO TWO LAYERS THROUGH ELIMINATION OF ENTERPRISES. END INTRODUCTION AND SUMMARY

2. SHASHIN FORECASTS OIL PRODUCTION INCREASE OF 31 MILLION TONS FOR 1975 OVER LAST YEAR'S 459 MILLION TON FIGURE (INCLUDES FIELD CONDENSATE). TWO FACTORS WHICH HAVE PLAYED IMPORTANT PART IN PRODUCTION INCREASES DURING RECENT YEARS ARE: (1) ABOVE-NORM RISE IN LABOR PRODUCTIVITY (5.5 PERCENT ESTIMATED FOR THIS YEAR COMPARED TO PLAN FIGURE OF 5.3 PERCENT); AND (2) HEAVY CAPITAL INVESTMENT IN INDUSTRY DURING YEARS 1971-74 (ESTIMATED AT ABOUT 14 BILLION RUBLES) RESULTING IN LARGE INVENTORY OF DRILLING EQUIPMENT, TRACTORS AND OTHER AUTOMOTIVE VEHICLES.

3. OTHER RESOURCES INCLUDE 11 SPECIALIZED SCIENTIFIC-RESEARCH INSTITUTES, 17 TERRITORIAL INSTITUTES AND 5 CONSTRUCTION BUREAUS. DURING FIRST FOUR YEARS OF NINTH FIVE-YEAR PLAN (1971-74) PROFITABILITY OF INDUSTRY INCREASED 2.2 TIMES (COMPARED WITH 1.5 TIMES PLAN FIGURE) AND A 30 PERCENT INCREASE IN DRILLING WAS ATTAINED, ACCORDING SHASHIN. APPLICATION OF NEWER TECHNOLOGY INCLUDING DISPLACEMENT OF OIL THROUGH SYSTEM OF INJECTION WATER AND CHEMICAL REAGENTS REPORTEDLY RESULTED IN REDUCING OPERATING COSTS BY 2-2.5 TIMES AND SAVINGS OF 3-4 BILLION RUBLES DRILLING COSTS. MEASURED BY "ABSOLUTE PROFITS (ABSOLUTNOY VELICHINE PRIBYILI)" WHICH SHASHIN CLAIMS REACHED 3.1 BILLION RUBLES IN 1974 (20 PERCENT GREATER THAN 1970), THE OIL INDUSTRY WOULD REPORTEDLY BE ONE OF THE LEADERS IN SOVIET HEAVY INDUSTRY GROUPS. HOWEVER THE FACT THAT "RATE OF PROFITABILITY (RENTABELNOSTI)" IN THE INDUSTRY HAS DECREASED DURING PERIOD IS OF GREAT CONCERN TO SOVIETS. SHASHIN ATTRIBUTES DEVELOPMENT TO FOUR BASIC FACTORS: ALMOST COMPLETE DEPLETION OF AND CONSEQUENT LOW RETURN FROM URALS-VOLGA DEPOSITS; EXPLOITATION OF SMALL OIL FIELDS IN EUROPEAN USSR WITH HIGHER COSTS PER UNIT OF OUTPUT; ESTABLISHMENT OF NEW PRODUCTION CENTERS IN ECONOMICALLY UNDEVELOPED AREAS OF COUNTRY (EASTERN SIBERIA) WITH EXCESSIVELY DIFFICULT NATURAL-CLIMATIC CONDITIONS; LIMITED OFFICIAL USE

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FACT THAT NEW PRODUCTION CAPACITY DIRECTED TOWARDS COMPENSATING FOR DEPLETION RATHER THAN PROVIDING ABSOLUTE GROWTH IN OUTPUT.

4. ELIMINATION OF "UNJUSTIFIED NUMBER OF WORKERS IN REGIONAL ENGINEERING-TECHNICAL SERVICES" AND OTHER "NON-INDUSTRIAL GROUPS" IS ONE OF BASIC STEPS SUGGESTED BY SHASHIN TO REDUCE

EXCESSIVE LABOR COSTS. PRODUCTION ASSOCIATIONS "UKRNEFT", "SARATOVNEFTGAZ", "DALNEFT", "ORENBURGNEFT", "STRAVROPOL-NEFTGAZ" AND "KUIBYSHEVNEFT" ARE PARTICULARLY ADMONISHED ON THIS SCORE. SHASHIN WRITES THAT "MINISTRY-PRODUCTION ASSOCIATION-ENTER-PRISE" MANAGEMENT ORGANIZATION WITHIN OIL INDUSTRY WILL BE REDUCED TO TWO-TIERED "MINISTRY-PRODUCTION ASSOCIATION" SETUP DURING YEAR, BASED ON NEW AUTOMATED MANAGEMENT SYSTEM TERMED "ASY-NEFT". EARLIER ELIMINATION OF FOURTH AND FIFTH LAYERS MANAGEMENT REPORTEDLY RESULTED IN SAVINGS OF 27 MILLION RUBLES (APPARENTLY OVER FOUR YEAR PERIOD 1971-74).

5. EXPANDED APPLICATION OF NEWER TECHNOLOGY TO BE CENTERED ON GREATER USE OF WATER-FLOODING AND CHEMICAL REAGENTS PLUS INCREASED NUMBER SUBERSIBLE PUMPS, BOTH AIMED AT MAXIMIZING OUTPUT FROM OLDER DEPOSITS. IN VIEW LARGE EXPENDITURES LINKED TO DEVELOPMENT AND INITIAL APPLICATION THESE METHODS, MANY ENTERPRISES ARE RELUCTANT UNDERTAKE CHANGEOVER. IN EFFORT ELIMINATE SUCH "NEGATIVE PHENOMENA" A COMPREHENSIVE "SYSTEM OF MEASURES FOR ECONOMIC STIMULATION OF TECHNICAL PROGRESS" HAS BEEN CREATED WITHIN OIL INDUSTRY. ONE OF MAIN FEATURES OF SYSTEM IS SPECIAL FUND FOR COMPENSATION OF EXTRA COSTS INCURRED DURING DEVELOPMENT AND FIRST TWO YEARS APPLICATION OF NEW TECHNOLOGY: FIRST ALLOCATIONS EXPECTED "SOMETIME DURING 1976". MINISTRY IS ALSO REPORTEDLY DEVELOPING GENERALIZED AND SPECIFIC PLAN-EVALUATION INDICATORS TO BE INTRODUCED IN TENTH FIVE -YEAR PLAN, SINCE PRESENT CRITERIA HAVE BEEN INEFFECTIVE. SHASHIN CITES EXAMPLES OF ORGANIZATIONS WHICH PROVIDE WATER, ELECTRICITY AND HEAT FOR OIL PRODUCTION: BASED ON PRESENT INDICATORS "OBJECTIVE INTERESTS" OF THESE UNITS ARE BEST SERVED BY INCREASING AMOUNTS OF THESE RESOURCES USED IN PRODUCTION RATHER THAN BY INSURING MAXIMUM OIL OUTPUT AT LOWEST COST. MINISTER SHASHIN REPORTS THAT LONG-TERM " COMPOSITE PROGRAM" FOR INDUSTRY DEVELOPMENT BEING DRAWN UP LIMITED OFFICIAL USE

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WITH ASSISTANCE OIL REFINING, CHEMICAL, AND MACHINE BUILDING INDUSTRIES. INITIAL CALCULATIONS INDICATE THAT SOVIETS MUST "SHARPLY INCREASE PRODUCTION OF DIFFERENT CHEMICAL REAGENTS, STEAM-GENERATOR STATIONS, COMPRESSORS, EQUIPMENT FOR ELECTRO-HEATING OF WELLS AT GREAT DEPTHS AND OTHER EQUIPMENT AND CONTROL INSTRUMENTS".

6. IN VIEW REDUCED PRODUCTION IN OLDER FIELDS SOVIETS ARE AIMING AT INTRODUCTION MINIMUM 90 MILLION TONS NEW CAPACITY ANNUALLY. BOTH GEOLOGICAL SURVEY WORK AND DRILLING SLATED TO "SIGNIFICANTLY INCREASE" DURING TENTH FIVE-YEAR PLAN. SHASHIN URGES 1300 DRILLING BRIGADES TO INCREASE "SOCIALIST COMPETITION" IN ORDER EXCEEDED PLAN BY FEBRUARY 1976. OUTPUT OF EXISTING WELLS CAN BE INCREASE BY BETTER OF PUMPS AND CONSEQUENT LONGER OPERATING PERIODS BETWEEN REPAIRS, PLUS ADDING THIRD

SHIFT FOR FIELD MAINTENANCE WORKERS TO AVOID LONG DOWN-TIMES FOR WELLS AND DRILLING RIGS. THE TARGET FOR DRILLERS DURING NEXT FIVE-YEAR PLAN IS 40 PERCENT INCREASE IN DEPTH DRILLED AND 40-50 PERCENT REDUCTION IN TIME FOR ESTABLISHING AND TESTING WELLS.

7. COMMENT - MINISTER SHASHIN AVOIDS COMMENT ON POSSIBLE SOURCES OF THE ADVANCED EQUIPMENT AND TECHNOLOGY NEEDED TO SPEED UP MOMENTUM OF EXPANSION WITH OIL INDUSTRY. GIVEN IMPORTANCE ATTACHED TO HIGHER OIL OUTPUT, HOWEVER, IF HEAVY HARD CURRENCY OUTLAYS FOR 1975 SOVIET GRAIN IMPORTS LIMIT FOREIGN EXCHANGE AVAILABILITY, SHASHIN'S REQUIREMENTS TO SURELY RECEIVE PRIORITY. IN THIS CONNECTION, IT MAY BE INDICATIVE THAT SHASHIN EXPECTS TO SIGN SCIENTIFIC/TECHNICAL COOPERATION AGREEMENTS THIS WEEK WITH BOARD CHAIRMEN OF STANDARD OF INDIANA AND OF PHILLIPS PETROLEUM. EXACT AREAS OF COOPERATION, HOWEVER, WILL DEPEND ON FURTHER TALKS BETWEEN OFFICIALS OF OIL MINISTRY AND RESPECTIVE COMPANIES. SOVIETS ARE PARTICULARLY ANXIOUS TO ACQUIRE DETAILED DATA ON SECONDARY AND TERTIARY RECOVERY METHODS -- INFORMATION WHICH WE UNDERSTAND BOTH COMPANIES ARE UNWILLING TO PROVIDE UNLESS SOVIETS SUPPLY TECHNOLOGY OF COMPARABLE VALUE.
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